



Chile: Political and Economic Conditions and U.S. Relations

Peter J. Meyer

Analyst in Latin American Affairs

January 12, 2009

Congressional Research Service

7-5700

www.crs.gov

R40126

CRS Report for Congress

Prepared for Members and Committees of Congress

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 12 JAN 2009		2. REPORT TYPE		3. DATES COVERED 00-00-2009 to 00-00-2009	
4. TITLE AND SUBTITLE Chile: Political and Economic Conditions and U.S. Relations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service, The Library of Congress, 101 Independence Avenue SE, Washington, DC, 20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 15	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Summary

Following a violent coup against democratically elected Marxist President Salvador Allende in 1973, Chile experienced 17 years of military rule under General Augusto Pinochet before reestablishing its elected civilian democracy in 1990. A center-left coalition of parties known as the Concertación has governed Chile for the nearly two decades since the end of the dictatorship. The coalition has enacted a number of constitutional changes to strengthen civilian control of the military and to undertake the prosecution of those alleged to be responsible for human rights violations during the Pinochet-era. Chile has made significant economic progress under the Concertación's free market economic policies and moderate social programs, which have produced notable economic growth and considerable reductions in poverty.

Current President Michele Bachelet has faced a number of challenges since her 2006 election. Widespread demonstrations over education, increased militancy by indigenous groups, and opposition control of the legislature have hindered President Bachelet's ability to govern. The international financial crisis is President Bachelet's latest challenge, though the government's timely decision to save recent fiscal surpluses will allow Chile to pursue counter-cyclical policies and minimize the effects of the economic downturn.

Chile has enjoyed close relations with the United States since its transition back to democracy. Both countries have emphasized similar priorities in the region, designed to strengthen democracy, improve human rights, and advance free trade. Chile and the United States have maintained strong commercial ties, which have become more extensive since the bilateral free trade agreement between them entered into force in 2004. U.S. officials have also expressed appreciation for Chile's leadership and moderating influence in a region increasingly characterized by political unrest and anti-American populism.

This report—which will be updated as events warrant—provides a brief historical background of Chile, summarizes recent political and economic developments, and addresses issues in U.S.-Chilean relations.

Contents

Political and Economic Background	1
Allende Era.....	1
Pinochet Era	1
Return to Democracy	2
Recent Political and Economic Developments.....	3
2005 Presidential and Legislative Elections.....	3
Loss of Concertación Control over Legislature	3
2008 Municipal and 2009 Presidential and Legislative Elections	4
Education Demonstrations	5
Mapuche Activism	5
Human Rights.....	6
Energy Challenges.....	7
Economic Challenges.....	7
Chile-U.S. Relations.....	8
Free Trade Agreement	8
U.S. Assistance.....	9
Regional Leadership.....	9
Narcotics and Human Trafficking	9

Figures

Figure 1. Map of Chile	11
------------------------------	----

Tables

Table 1. Chilean Political Acronyms	12
---	----

Contacts

Author Contact Information	12
----------------------------------	----

Political and Economic Background

Allende Era

Chile declared independence from Spain in 1810, but did not achieve full independence until 1818. By 1932, Chile had established an electoral democracy, which endured until 1973. During much of this period, Chile was governed by reform-minded presidents who pursued import-substitution industrialization (ISI), the expansion of the welfare state, and other statist economic policies. The pace of change quickened following the election of Eduardo Frei of the Christian Democratic Party (PDC) in 1964. Frei's government took majority ownership of the copper mines, redistributed land, and improved access to education. Despite these actions, some Chileans felt more radical change was needed. In 1970, Salvador Allende, a Socialist and the leader of the Popular Unity coalition, was elected president. Allende accelerated and furthered the changes of the previous administration by fully nationalizing firms, expanding land reform, and generally socializing the economy. While Allende's supporters pushed him to move more quickly, the political center, represented by the PDC, joined with the parties of the right to block Popular Unity initiatives in the legislature. This ideological difference prevented the Chilean government from addressing the faltering economy and served to further radicalize supporters on both ends of Chile's already polarized society. When the situation continued to deteriorate following the indecisive 1973 Legislative elections, the military intervened.¹

Pinochet Era

On September 11, 1973, the Chilean military, under the control of General Augusto Pinochet, deposed the Allende government in a violent coup and quickly consolidated control of the country. The military junta closed Congress, censored the media, declared political parties in recess, and regarded the organized left as an internal enemy of the state. Within the first few months of military rule, at least 1,261 people in Chile were killed or disappeared for political reasons, nearly 20,000 were imprisoned, and many of them were tortured. By the end of the dictatorship in 1990, the number of killed or disappeared had risen to at least 2,279 and the number of imprisoned and tortured is said to have exceeded 30,000.² General Pinochet emerged as the figurehead of the junta soon after the coup and won a tightly controlled referendum to institutionalize his regime in 1978. Pinochet reversed decades of statist economic policies by rapidly implementing a series of changes that liberalized trade and investment, privatized firms, and dismantled the welfare state. Pinochet won another tightly controlled referendum in 1980, which approved the Constitution that continues to govern Chile today. The new constitution called for a plebiscite to take place in 1988 in which Chileans would have the opportunity to reelect Pinochet to another 8-year term or reject him in favor of contested elections. Although the Chilean economy enjoyed a period of rapid economic growth between 1976 and 1981, it collapsed in 1982, sparking widespread protests. Following these initial demonstrations, Chilean civil society groups became more active in criticizing the policies of the Pinochet regime. At the same time, political parties began to reemerge to challenge the government. In 1988, several civil

¹ *Chile: A Country Study*, ed. Rex A. Hudson, (Washington, D.C.: Library of Congress, 1994).

² Report of the National Commission for Truth and Reconciliation, February 1991; Report of the National Commission on Political Imprisonment and Torture, November 2004.

society groups and political parties formed a coalition in opposition to Pinochet's reelection. In the plebiscite, 55% of the Chilean people voted against another 8-year term for Pinochet, triggering the election campaign of 1989.³

Return to Democracy

The 1989 elections created the political dynamics that prevail in Chile today. Two major coalitions of parties were formed to contest the elections. The center-left Coalition of Parties for Democracy, or Concertación, united 17 groups that were opposed to the Pinochet dictatorship. The major parties in the coalition were the centrist PDC and the center-left Radical Party (PR), Social Democratic Party (PSD) and Party for Democracy (PPD), which was created by Socialists in 1987 to circumvent the Pinochet regime's ban on Marxist parties. The center-right Democracy and Progress coalition included the center-right National Renovation (RN) and the rightist Independent Democratic Union (UDI). A third coalition, the Broad Party of the Socialist Left (PAIS), was composed of leftist parties unwilling to participate in the Concertación, including the Communist Party (PC). Patricio Alwyn, a Christian Democrat and the candidate of the Concertación, won the presidency with 55% of the vote and the Concertación won majorities in the Chamber of Deputies and among the elected members of the Senate.⁴

The Concertación coalition has governed Chile continuously since the transition to democracy and has undergone few changes. The coalition is now composed of the PDC, the PPD, the Socialist Party (PS), which officially began contesting elections as a part of the Concertación in 1993, and the Radical Social Democratic Party (PRSD), which was created through a merger of the PR and PSD in 1994. The center-right coalition has consistently held a minority of elected seats in both legislative houses and has never won the presidency. It has undergone a number of name changes, most recently becoming the Alliance for Chile, or Alianza. The leftist coalition that includes the PC is now called "Together We Can Do More" (JPM), and has never elected a Member of Congress. Eduardo Frei Ruiz-Tagle of the PDC was elected president in 1993, followed by Ricardo Lagos of the PPD in 1999, and Michelle Bachelet of the PS in 2005. Concertación governments have pushed through a number of constitutional reforms that strengthened civilian control over the military, eliminated the institution of unelected Senators, and reduced presidential terms from 6 years to 4. They have been unable to eliminate the binomial election system, which has historically inflated conservative representation as a result of two-member districts that require a coalition to win by 2-1 margins in order to secure both seats.⁵

All of the Concertación administrations have generally maintained the open economic policies of the Pinochet regime and promoted export-led development through their pursuit of free trade agreements and encouragement of new export sectors such as forestry products, salmon, fresh fruit, wine, and methanol. Chile now has 57 bilateral or regional trade agreements, more than any other country, and has established a diverse economy much less reliant on its traditional copper exports.⁶ Concertación administrations have also implemented some redistribution policies to

³ Alan Angell & Benny Pollack, "The Chilean elections of 1989 and the Politics of the Transition to Democracy," *Bulletin of Latin American Research*, Volume 9 (1), 1990.

⁴ Ibid.

⁵ Peter M. Siavelis, "Electoral System, Coalitional Disintegration, and the Future of Chile's Concertación," *Latin American Research Review*, Volume 40 (1), 2005.

⁶ Central Intelligence Agency, "World Factbook," September 2008.

address poverty and inequality in Chile. Although income distribution remains virtually unchanged since the dictatorship, economic growth and the social programs of the Concertación have been successful in reducing poverty. The percentage of Chileans living in poverty fell from 39% in 1990 to 13.7% in 2006. The World Bank classifies Chile as an upper middle income developing country based on its 2006 per capita income of \$6,980.⁷ Chile is also the only country in Latin America and the Caribbean on pace to meet all eight of the United Nations (UN) Millennium Development Objectives by 2015.⁸ The objectives work toward the goals of eradicating extreme hunger and poverty, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating disease, ensuring environmental stability, and developing a global partnership for development.

Recent Political and Economic Developments

2005 Presidential and Legislative Elections

The most recent presidential and legislative elections were held in December 2005. Michelle Bachelet, the Concertación candidate for president and a member of the PS, won 45.9% of the first round vote. The Alianza split its vote, with the RN's Sebastián Piñera taking 25.2% and Joaquín Lavín of the UDI winning 23.2%. Since no candidate won a majority, a run-off election was held in January of 2006 in which Bachelet defeated Piñera 53.5% to 46.5%. Bachelet is the first female president in Chile's history. The Concertación also won majorities in both legislative houses, with 65 of the 120 seats in the Chamber of Deputies and 20 of the 38 seats in the Senate.⁹ As a result of the 2005 constitutional reform that eliminated the institution of unelected Senators, the Concertación established true majorities in both legislative houses for the first time. Presidents and Deputies are elected to 4-year terms, with Presidents ineligible to serve consecutive terms. Senators are elected to 8-year terms, with half of the Senate up for election every 4 years.

Loss of Concertación Control over Legislature

The Concertación has struggled in the legislature since the 2005 election. A number of corruption scandals involving missing public funds and falsified election campaign financial reports hit the Concertación in late 2006. These scandals led to the Concertación losing two Deputies to corruption charges, one from the PPD and one from the PS. Soon after, the PPD expelled one of the party's founders, Deputy Jorge Schaulsohn, for accusing the Concertación of having a culture of corruption. This expulsion led to two other high profile members of the party, Deputy Javier Etcheberry and Senator Fernando Flores, leaving the party and the Concertación. Senator Flores and Deputy Schaulsohn have since created a new party, Chile Primero.¹⁰

⁷ World Bank, "World Bank Development Report," 2008.

⁸ "Chile: Leading the Millennium Objectives League," *Latin News Latin American Regional Report: Brazil & Southern Cone*, September 2008.

⁹ "Chile: Country Report," *Economist Intelligence Unit*, January 2006; February 2006.

¹⁰ "Chile: Concertación Faces Schism," *Latin News Weekly Report*, May 10, 2007.

In November 2007, President Bachelet requested a new public subsidy for the failing Transantiago transportation system. Senator Adolfo Zaldívar of the PDC joined with Senator Flores of Chile Primero, an Independent Senator, and the Senators of the Alianza to defeat the proposal. The PDC expelled Senator Zaldívar from the party for his lack of party discipline on an issue of importance to the ruling coalition, leading 5 Deputies from Zaldívar's faction of the PDC to leave the party and the Concertación.¹¹

After all of the corruption charges, expulsions, and resignations, the Concertación was left with only 56 of the 120 seats of the Chamber of Deputies and 18 of the 38 seats in the Senate.¹² The Alianza reached an agreement with the unaffiliated members of the Senate to make Senator Zaldívar the Senate President in 2008 in exchange for making a member of the Alianza the Senate President in 2009. In the Chamber of Deputies, the Concertación remained in control of the Presidency in 2008 but handed control to the Alianza at the beginning of 2009.¹³ This is the first time that the Alianza has had control of both houses since the transition to democracy.

2008 Municipal and 2009 Presidential and Legislative Elections

In the municipal elections held on October 26, 2008, Chileans overwhelmingly voted for a change of direction, with more than half of the country's 345 mayors losing their seats. For the first time, the Concertación split into two smaller coalitions to contest council seats, the Democratic Concertación, composed of the PDC and PS, and the Progressive Concertación, consisting of the PPD and the PRSD. The four parties contested mayoral races as a single coalition. A new coalition, "For a Clean Chile," which includes Chile First, the Regional Party of Independents, and the Ecological Party, contested elections for the first time. The Alianza and JPM coalitions also took part in the elections.

Although the Concertación won more council and mayoral seats than the Alianza, the Alianza won a larger share of the national vote than the Concertación for the first time. With 95% of the vote counted, the Alianza won 40.49% of the vote with 38.4% going to the Concertación, 6.4% to JPM, 4% to For a Clean Chile, and 10% to Independents. When considering only votes for council seats, the Democratic Concertación took 27.9% of the national vote and the Progressive Concertación took 17.3%.¹⁴

These election results will figure prominently as parties broker their positions within the coalitions and as the coalitions consider their candidates going into the December 2009 presidential and legislative elections. They also suggest the Alianza and its likely presidential candidate, Sebastián Piñera, are in a strong position while the Concertación appears weaker than it has at any point since the return to democracy. The Concertación will choose its presidential candidate in an April 2009 primary. Now that former president Ricardo Lagos and current Secretary General of the Organization of American States, José Miguel Insulza, have withdrawn from the race, potential candidates include former President Eduardo Frei Ruiz-Tagle of the PDC

¹¹ "Chile: DC Crisis Sets Scene for 2009 Contest," *Latin News Latin American Regional Report: Brazil & Southern Cone*, December 2007.

¹² "Defections Leave Chile's Ruling Coalition in Precarious Situation," *Latin News Latin American Regional Report: Brazil & Southern Cone*, January 2008.

¹³ "Chile: Zaldívar Assumes Presidency of Senate," *Latin News Weekly Report*, March 19, 2008.

¹⁴ "Chileans Vote for Change," *Latin News Daily*, October 27, 2008.

and Senator José Antonio Gómez of the PRSD.¹⁵ A poll taken in December 2008 showed Piñera maintaining double digit leads over each of his potential Concertación opponents.¹⁶

Education Demonstrations

Since the transition to democracy, many Chileans have called on the government to address the inequality in the education system that activists contend is a result of Pinochet-era privatization reforms. Despite successive Concertación governments' lack of action, students had high hopes following Bachelet's election since she had based her campaign around themes of social justice. When President Bachelet neglected to even mention education during a state of the nation speech in May 2006, Chilean students organized the largest social demonstrations in the country since the return to democracy. With nearly 75% of the public backing them, students filled the streets, took over schools, and organized rallies that drew as many as 800,000 people.¹⁷ The resulting street violence and near complete shut down of Chile's education system forced President Bachelet to shuffle her cabinet, replacing the education, economy, and interior ministers. President Bachelet also increased education spending and created a commission to consider education reform. The administration put forward the General Education Law (LGE), which was designed to better regulate the current system. Student groups and teachers unions have protested the new law, saying it fails to address the privatization of education, which they contend is the root problem.¹⁸

Mapuche Activism

Confrontation with the Mapuche population has been a persistent problem for the Bachelet Administration. The Mapuche are Chile's largest indigenous group and comprise approximately 4% of the population or 660,000 of Chile's 16.5 million citizens.¹⁹ They are mainly located in the central and southern regions of BíoBío, Araucanía, Los Ríos, and Los Lagos (See Figure 1 for a map of Chile). The Mapuche have long sought official recognition as a people, protection of indigenous rights, and restoration of full ownership of their ancestral lands. Mapuche groups have pursued these ends through a variety of means. Some, like the Council of all the Lands, have pushed for the ratification of convention 169 of the International Labour Organization (ILO) on indigenous rights. Others, such as the Coordinating Committee of Mapuche Communities in Conflict Arauco-Malleco (CAM), have pursued more militant actions, occupying ancestral Mapuche lands and burning vehicles, machinery, and buildings on them, frequently targeting logging companies. Most recently, a number of Mapuche intellectuals formed their own political party, Wallmapuwen. Despite promises from successive Concertación governments to rectify Chile's relationship with its indigenous groups, Mapuche groups maintain that action has been slow, both in terms of the transfer of lands to Mapuche communities and land titling.

¹⁵ "Descarta Insulza Candidatura a la Presidencia de Chile," *Agencia Mexicana de Noticias*, January 5, 2009; For more information on the Organization of American States, see: CRS Report RS22095, *Organization of American States: A Primer*, by Clare Ribando Seelke.

¹⁶ "Mantiene Piñera Liderazgo en Pronósticos Electorales Chilenos," *Agencia Mexicana de Noticias*, December 30, 2008.

¹⁷ Monte Reel, "Chile's Student Activists: A Course in Democracy," *Washington Post*, November 25, 2006.

¹⁸ Andrea Arango, "The Failings of Chile's Education System: Institutionalized Inequality and a Preference for the Affluent," *Council on Hemispheric Affairs*, July 30, 2008.

¹⁹ Central Intelligence Agency, "World Factbook," September 2008.

CAM has increased its militant actions in recent years, because of its dissatisfaction with the government's efforts on indigenous issues. As a result, the Bachelet Administration has captured and imprisoned many of CAM's leaders. Nonetheless, conservative politicians and media have accused the government of inaction and alleged connections between the Mapuche and foreign terrorist organizations like the Revolutionary Armed Forces of Colombia (FARC) and Basque Homeland and Freedom (ETA) in Spain. The government insists that there is no credible evidence of operational links between these groups, and CAM denies having any foreign ties. Human rights groups have also criticized the Bachelet Administration, accusing Chile's *carabineros* (police force) of arbitrary arrests, torture, and beatings of Mapuche people and criticizing the government's use of Pinochet-era anti-terrorism laws to prosecute Mapuche activists. In addition to the arrests, Bachelet has replaced the governors of several regions with substantial Mapuche populations, appointed a new interior minister, and created a special commission to reformulate government policy towards the Mapuche.²⁰ In September 2007, Chile approved the United Nations (UN) Declaration on the Rights of Indigenous Peoples and in September 2008, President Bachelet promulgated ILO convention 169 on indigenous rights.²¹

Human Rights

In recent years, Chile has continued to address human rights violations from the Pinochet era. In September 2005, the Chilean Supreme Court upheld a court of appeals ruling that stripped Pinochet of immunity and allowed him to stand trial for his role in the killing of 119 political dissidents who were found dead in Argentina in 1975. In January 2006, an appeals court again stripped Pinochet of his immunity from prosecution for his role in the killing of two of Allende's bodyguards in 1973. Pinochet was stripped of immunity a third time in September 2006 by Chile's Supreme Court so that he could stand trial for the abuses at the Villa Grimaldi detention center, an infamous center for torture whose victims included President Bachelet. In December 2006, after having several charges dropped because of his failing health (but still under indictment in two human rights cases and on tax evasion), Pinochet died of complications from a heart attack.²²

Other dictatorship-era officials have also been prosecuted for human rights violations. Former intelligence chief, retired General Manuel Contreras, was sentenced to two life prison terms in July 2008 for organizing the 1974 double assassination of General Carlos Prats and his wife in Buenos Aires, Argentina. Contreras was already imprisoned as a result of convictions stemming from other dictatorship-era crimes, including the 1976 assassination of former Ambassador to the United States, Orlando Letelier and his American associate, Ronni Moffitt, in Washington, D.C.²³ In October 2008, Sergio Arellano Stark, the commander of the so-called "Caravan of Death" that executed 80 political prisoners of the dictatorship shortly after the coup in 1973, was sentenced to 6 years in prison.²⁴ In all, over 100 former members of the Chilean military have been convicted

²⁰ "Chile: Mapuche Party Born as Legislative Battle Rages," *Latin News Special Report*, July 2007; "Chile: Bachelet reacts to Challenge by Radical Activists," *Latin News Security & Strategic Review*, January 2008.

²¹ "Bachelet Makes Gesture to Chile's Indigenous Groups," *Latin News Weekly Report*, September 25, 2008.

²² Jack Epstein, "Augusto Pinochet: 1915-2006/Chilean Leader's Regime Left Thousands of 'Disappeared'," *San Francisco Chronicle*, December 11, 2006.

²³ Helen Hughes & Jack Chang, "Ex-Chilean Intelligence Chief Gets 2 Life Sentences," *Miami Herald*, July 1, 2008.

²⁴ "Condenan a General Chileno por Crímenes de 'Caravana de la Muerte'," *Agencia Mexicana de Noticias*, October 15, 2008.

for their dictatorship-era crimes.²⁵ Family members of the disappeared and other human rights advocates continue to push for greater transparency concerning the actions of the dictatorship and for those responsible to be brought to justice.

Energy Challenges

As a result of limited domestic energy resources and increasing demand due to its strong economic growth, Chile has become heavily dependent upon foreign energy imports. Between 1990 and 2006, primary energy imports increased from 45% to 67% of the total supply. Chile now imports about 99% of its crude oil, 72% of its natural gas, and 92% of its coal.²⁶ While Chile has tried to secure sufficient energy resources through its open economic policies, its supply has been threatened by a number of regional developments, including the use of resource nationalism in Bolivia. In 2004, Argentina cut its natural gas exports to Chile as a result of a domestic energy crisis. Since then, Argentine natural gas exports to Chile have fluctuated between 50% and 80% of their contracted volumes and have occasionally completely stopped flowing.²⁷

These export cutbacks have adversely impacted Chilean economic activity and have forced Chile to reconsider its energy options. Chile is now focusing on diversifying both its energy suppliers and supplies. In 2005, Suez Energy International began a feasibility study to link Peru's Camisea natural gas project to northern Chile. This pipeline is part of a proposed natural gas ring to connect Peru, Chile, Argentina, Uruguay and Brazil. The ring would allow greater South American energy integration and would reduce several countries dependence on Bolivia, which re-nationalized its gas industry in 2006. The Chilean government and private firms began developing liquefied natural gas (LNG) terminals in 2006. Chile has also increasingly focused on domestic renewable sources of energy, beginning construction on a number of new hydroelectric plants, studying geothermal energy potential, and developing wind power plants.²⁸

Economic Challenges

The international financial crisis and economic slowdown has weakened Chile's economy. Real gross domestic product (GDP) growth slowed from 5.1% in 2007 to an estimated 3.9% in 2008. Likewise, the Santiago Stock Exchange (IPSA), like those in many emerging markets, suffered considerable losses in the months following the international recognition of the financial crisis in September 2008. Additionally, the price of copper—which provides 40% of the government's revenues—fell below \$2 per pound for the first time in three years in October 2008.²⁹

Despite these trends, Chile's economy remains stable. Foreign direct investment (FDI) for the first seven months of 2008 reached \$6.62 billion and Chile registered a \$7.65 billion fiscal

²⁵ "Familiares de Víctimas de Pinochet Mantienen Viva Demanda de Justicia," *Agencia Mexicana de Noticias*, September 5, 2008.

²⁶ Oscar Landerretche, "Chile's Choices: Maintaining Growth and Securing Supply," in *Energy and Development in South America: Conflict and Cooperation*, eds. Cynthia J. Arnson et al., 27-34, (Washington, D.C.: Woodrow Wilson International Center for Scholars, 2008).

²⁷ Energy Information Administration, "Country Analysis Briefs: Chile," September 2006.

²⁸ Ibid.

²⁹ "Ministro Chileno: Presupuesto Fiscal Sólido Pese a Baja Cobre," *Dow Jones Newswires*, October 22, 2008; "Chile: Country Report," *Economist Intelligence Unit*, December 2008.

surplus through the first half of the year.³⁰ Inflation, which had risen from 3.7% in 2005 to 9% in 2008, is expected to slow to 3.7% in 2009. The Chilean government has also taken a number of proactive steps to prepare for and confront the crisis. It invested \$22 billion in fiscal surpluses generated by high copper prices in recent years in 2 sovereign wealth funds. These funds will allow the government to pursue counter-cyclical policies and inject liquidity in the financial sector as needs arise.³¹ In October and November 2008, President Bachelet pledged \$2.7 billion to support small businesses, inject liquidity in local banks, and provide subsidies to working and middle class sectors to purchase homes.³² In January 2009, President Bachelet announced a new \$4.7 billion economic recovery package that will fund infrastructure projects to generate jobs, provide subsidies to low income families, cut taxes, and provide capital to the state-owned copper producer, Codelco.³³

Chile-U.S. Relations

The United States and Chile have enjoyed close relations since Chile's transition back to democracy. The countries maintain strong commercial ties and share common commitments to democracy, human rights, and free trade. Both countries have demonstrated these commitments by supporting the implementation of the Inter-American Democratic Charter as an instrument to ensure democratic governance throughout the region. Chile and the United States also signed a bilateral free trade agreement and have been proponents of the Free Trade Area of the Americas (FTAA).³⁴

Free Trade Agreement

The United States and Chile signed a bilateral free trade agreement (FTA) on June 6, 2003. Following the House and Senate passage of the U.S.-Chile Free Trade Implementation Act, President Bush signed the bill into law on September 3, 2003 (P.L. 108-77). The FTA established immediate duty-free treatment for 85% of bilateral trade in consumer and industrial products, increasing market access for both countries.³⁵ Since the agreement went into force on January 1, 2004, bilateral trade between the United States and Chile has nearly tripled, totaling \$17.3 billion in 2007. U.S. imports from Chile grew from \$3.7 billion in 2003 to \$9 billion in 2007 while U.S. exports to Chile grew from \$2.7 billion in 2003 to \$8.3 billion in 2007. The United States is now Chile's top source of imports and the main destination for Chile's exports while Chile was the 28th largest export market for U.S. goods in 2007.³⁶

³⁰ "Chile: Inflation Could Cost Concertación Elections," *Latin News Weekly Report*, August 7, 2008.

³¹ "Chile: Country Report," *Economist Intelligence Unit*, December 2008.

³² Eva Vergara, "Bachelet Crea Comisión para Enfrentar Desempleo por Crisis," *Associated Press*, December 15, 2008.

³³ "Chile Unveils Anti-Crisis Package," *Latin News Daily*, January 7, 2009.

³⁴ For more information on the FTAA, see: CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J. F. Hornbeck.

³⁵ For more information on the U.S.-Chile Free Trade Agreement, see: CRS Report RL31144, *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J. F. Hornbeck.

³⁶ U.S. Department of Commerce statistics, as presented by *World Trade Atlas*; Office of the United States Trade Representative, "Chile FTA Policy Brief," September 2007.

U.S. Assistance

Given Chile's relatively high level of development, it is not a major recipient of U.S. assistance. In FY2007, Chile received \$1.4 million in assistance and in FY2008, it received an estimated \$1.5 million. In FY2009, the Bush Administration requested \$1.6 million for Chile.³⁷ The majority of U.S. assistance to Chile is focused on modernizing the Chilean military by improving its capacity to act as a peacekeeping force and its ability to conduct joint operations with the U.S. military. U.S. assistance also goes to programs that deter weapons of mass destruction, improve civilian control over the military, and upgrade military equipment. The 110th Congress passed the Naval Vessel Transfer Act of 2008 (H.R. 7177, P.L. 110-429, signed into law on October 15, 2008.), which contains a provision that authorizes the President to transfer by grant a Kaiser class oiler, Andrew J. Higgins (AO-190), to the government of Chile.

Regional Leadership

Chile has been an active participant and frequent leader in multilateral engagement at both the regional and global levels. Chile has joined with the United States as part of the multinational peacekeeping force in Haiti since 2004, first as a part of the Multinational Interim Force-Haiti (MIFH) and subsequently as a part of the UN Stabilization Mission in Haiti (MINUSTAH). Chile has committed more human and material resources to MINUSTAH than it has to any previous peacekeeping mission and the country's early presence in the MIFH encouraged a number of other countries in the region to play a role in MINUSTAH.³⁸ The United States and Chile also worked together as members of the so-called "Group of Friends of Venezuela," to foster discussion between President Hugo Chávez and the political opposition.³⁹

Chile has taken on the role of regional leader in fora that do not involve the United States as well. In September 2008, President Bachelet called an emergency summit of the Union of South American Nations (UNASUR) to resolve the domestic turmoil in Bolivia. Following the summit, UNASUR released a statement of support for the constitutional government of President Evo Morales, condemned the political violence, and sent commissions to investigate a massacre of farm workers and facilitate dialogue between President Morales and the political opposition.⁴⁰ These actions led to an end to the violence and identification of those responsible as well as a resumption of talks among President Morales and the Bolivian opposition.

Narcotics and Human Trafficking

Chile has worked with the Drug Enforcement Administration (DEA) to address the increased narcotics trafficking taking place within its borders that has resulted from interdiction efforts in the Andean region. Although Chile is not a drug producing country, it is increasingly used as a transshipment point for cocaine and heroine destined for the United States and Europe and is a source for chemicals used in the processing of cocaine. The United States provides support for

³⁷ U.S. Department of State "FY2009 International Affairs Budget," 2008.

³⁸ Enzo Di Nocera García & Ricardo Benavente Cresta, "Chile: Responding to a Regional Crisis," in *Capacity Building for Peacekeeping: The Case of Haiti*, eds. John T. Fishel & Andrés Sáenz, 66-90 (Dulles, VA: Potomac Books, 2007).

³⁹ Juan Forero, "Friends of Venezuela Are There to Help," *New York Times*, January 31, 2003.

⁴⁰ Patrick J. McDonnell, "Regional Summit Calls on Bolivians to Avoid Strife," *Los Angeles Times*, September 16, 2008; "Bolivia's Morales Receives UNASUR backing," *Latin News Daily*, September 16, 2008.

training prosecutors, police, judges, and public defenders in the administration of justice as well as enhanced investigation and intelligence capabilities in Chile.⁴¹

Chile is also a source, transit, and destination country for trafficking in persons for commercial sexual and labor exploitation. The U.S. Department of State's 2008 Trafficking in Persons (TIP) Report states that Chile does not fully comply with the minimum standards for the elimination of trafficking because its statutory framework does not specifically prohibit labor trafficking. However, Chile made significant efforts to fully comply with the U.S. standards during the 2007-2008 reporting period, introducing anti-trafficking legislation, opening a significant number of trafficking investigations, and improving assistance for trafficking victims. As a result, the U.S. Department of State designated Chile a "Tier 2" country.⁴²

⁴¹ Bureau for International Narcotics and Law Enforcement Affairs, "Counternarcotics and Law Enforcement Country Program: Chile," July 14, 2005.

⁴² U.S. Department of State Office to Monitor and Combat Trafficking in Persons, "Trafficking in Persons Report," June 2008.

Figure 1. Map of Chile



Source: Map Resources. Adapted by CRS.

Table I. Chilean Political Acronyms

Acronym	Political Organization	Description
CAM	Coordinating Committee of Mapuche Communities in Conflict Arauco-Malleco	Militant Mapuche organization
JPM	Together We Can Do More	Leftist coalition of parties
PAIS	Broad Party of the Socialist Left	Leftist coalition of parties at return to democracy
PC	Communist Party	Leftist member party of JPM
PDC	Christian Democratic Party	Centrist member party of the Concertación ^a
PPD	Party for Democracy	Center-left member party of the Concertación
PR	Radical Party	Center-left member party of the Concertación at return to democracy
PRSD	Radical Social Democratic Party	Center-left member party of the Concertación, merger of PR and PSD
PS	Socialist Party	Center-left member party of the Concertación
PSD	Social Democratic Party	Center-left member party of the Concertación at return to democracy
RN	National Renovation	Center-right member party of the Alianza ^b
UDI	Independent Democratic Union	Rightist member party of the Alianza

Source: Compiled by CRS

Notes:

- a. The Concertación is a center-left coalition of parties.
- b. The Alianza is a center-right coalition of parties.

Author Contact Information

Peter J. Meyer
Analyst in Latin American Affairs
pmeyer@crs.loc.gov, 7-5474